

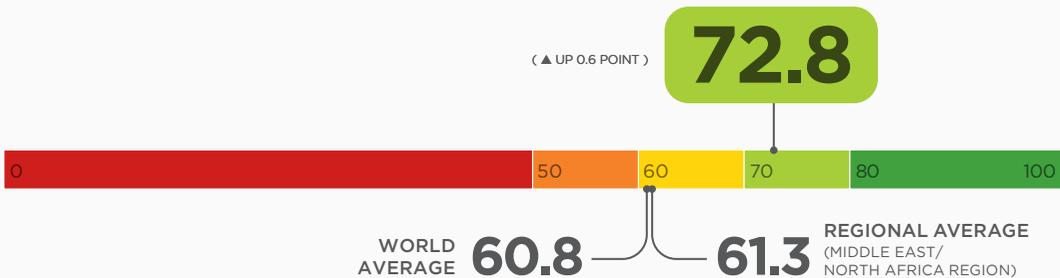
# ISRAEL

Israel's economic freedom score is 72.8, making its economy the 27th freest in the 2019 *Index*. Its overall score has increased by 0.6 point, with improvements in **government integrity** and **fiscal health** outpacing a sharp decline in the score for **judicial effectiveness**. Israel is ranked 2nd among 14 countries in the Middle East and North Africa region, and its overall score is above the regional and world averages.

The Israeli government will likely continue to liberalize and deregulate but also defer fiscal consolidation in favor of populist spending and tax measures demanded by the governing coalition. More positively, lower customs duties should encourage greater competition and lower prices. Strong trade and investment ties outside of the Middle East insulate Israel's technologically advanced free-market economy from regional political instability. Competitiveness is enhanced by strong protection of property rights, efficient coordination of regulatory processes, and a sound judicial framework that sustains the rule of law.



## ECONOMIC FREEDOM SCORE

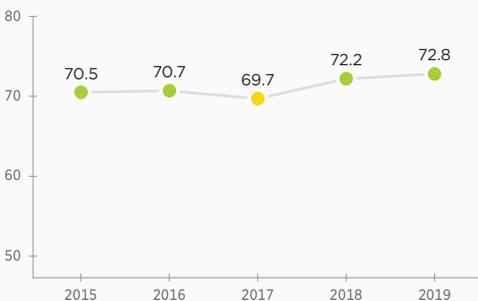


**RELATIVE STRENGTHS:**  
Monetary Freedom and Fiscal Health

**HISTORICAL INDEX SCORE CHANGE (SINCE 1995):**  
+11.3

**CONCERNS:**  
Government Spending and Tax Burden

## FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
8.7 million

**GDP (PPP):**  
\$316.5 billion  
3.3% growth in 2017  
5-year compound annual growth 3.5%  
\$36,340 per capita

**UNEMPLOYMENT:**  
4.2%

**INFLATION (CPI):**  
0.2%

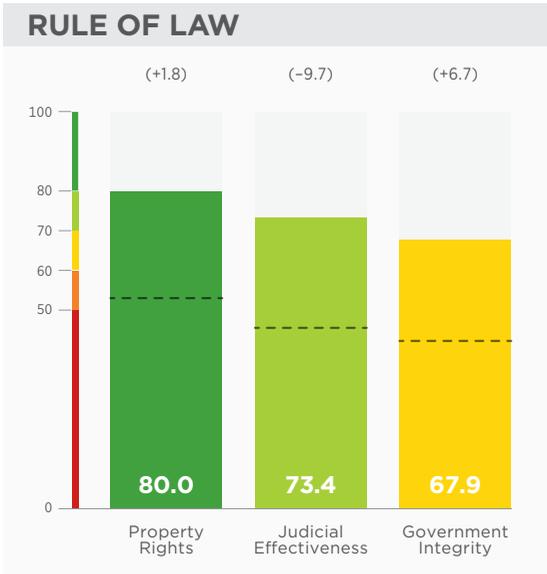
**FDI INFLOW:**  
\$19.0 billion

**PUBLIC DEBT:**  
61.0% of GDP

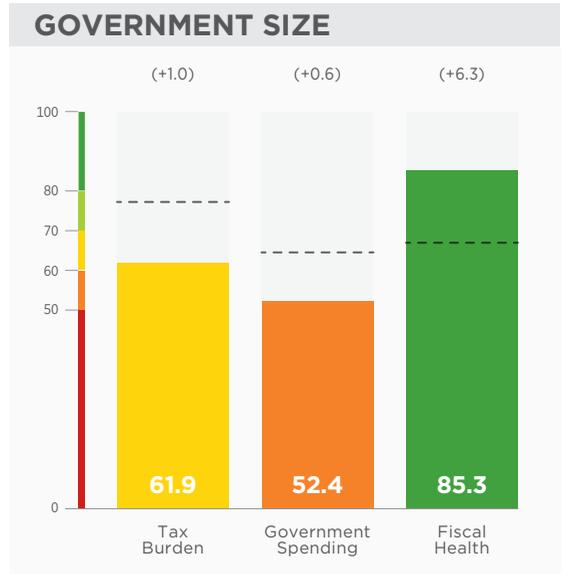
2017 data unless otherwise noted. Data compiled as of September 2018

**BACKGROUND:** Israel fought a war to gain independence in 1948 after Arab states rejected a U.N.-proposed partition of Great Britain's Palestinian Mandate. Subsequent military defeats of Arab armies have deepened tensions. Israel's vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu, reelected in 2015, leads a coalition government of right-leaning and religious parties. Israel has a modern market economy with a thriving high-technology sector that attracts considerable foreign investment. The discovery of large offshore natural gas deposits has improved its energy security and balance-of-payments prospects. Despite the 2006 war against Hezbollah in Lebanon and frequent military campaigns against Hamas in Gaza, as well as the constant threat of terrorism, Israel's economy remains fundamentally sound and dynamic.

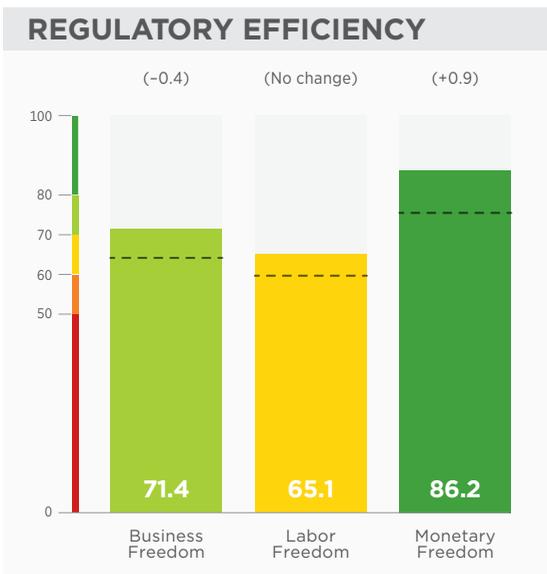
# 12 ECONOMIC FREEDOMS | ISRAEL



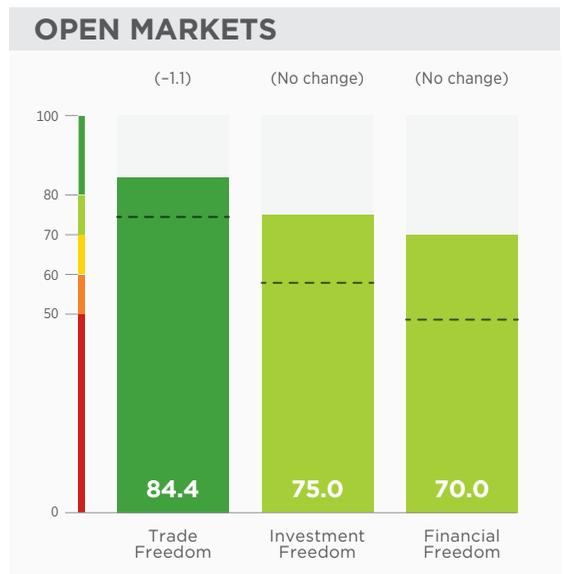
Property rights are recognized and protected, and contracts are enforced, but the judicial process can be very time-consuming. Israel's modern judicial system is independent and based on British common law. Bribery and other forms of corruption are illegal. A strong societal intolerance for graft extends to government corruption in all its forms and has strengthened the foundations of economic freedom.



The top personal income tax rate is 48 percent. The corporate tax rate has been cut to 23 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 31.2 percent of total domestic income. Over the past three years, government spending has amounted to 39.8 percent of the country's output (GDP), and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 61.0 percent of GDP.



The overall regulatory framework promotes efficiency and entrepreneurial activity. The labor market needs more flexibility to accommodate the rapidly transforming economy, but the nonsalary cost of employing a worker is relatively low. Since widespread demonstrations in 2011 related to the cost of living, price controls have been applied to many basic foods, medicine, gasoline, and basic banking services.



The combined value of exports and imports is equal to 58.4 percent of GDP. The average applied tariff rate is 2.8 percent. As of June 30, 2018, according to the WTO, Israel had 88 nontariff measures in force. Economic competitiveness has been facilitated by openness to foreign investment in general. Banking remains concentrated, but commercial banks offer a range of financial services that support private-sector development.